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Ukraine

Livestock and Products Annual

Report

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Report Highlights:

Production of red meat in 2017 is expected to decrease, following weak domestic demand. Pork consumption is expected to reach an all-time low. However, exports are expected to continue through 2017 in response to current high world market prices. Poultry will expand its share in the Ukrainian diet in 2017/18. Ukraine continues to develop export markets for live cattle in the Middle East. Pork production and trade were hindered by low prices in 2015/16 and the spread of African Swine Fever (ASF), with multiple cases registered all over the country. However, some export markets for pork were developed. Ukraine is expected to resume pork imports as the world market price becomes more favorable.

Data included in this report are not official USDA Data. Official USDA data are available at <http://www.fas.usda.gov/psd>

Executive Summary

Red meat production in Ukraine is projected to decrease again in 2017. The livestock industry will see a contraction of cattle numbers, continuing its twenty-five-year-long downward trend. However, the decrease will be limited as high milk prices in 2017 allow less efficient agricultural producers and households to retain their animals. Beef cattle numbers will remain insignificant.

In contrast, decrease in pork production in 2017 is expected to be drastic. In 2016, the industry was contracting on both sow and hog numbers. The decrease was caused by low pork prices and concerns about African Swine Fever (ASF). The trend is expected to reverse itself in 2018 as the swine population reached an all-time low number in 2017, and pork prices now ensure good profits for producers and packers. The significant production drop resulted from an enormous consumption decrease in 2017. The gap was not covered by pork imports as world market prices remained very high and above domestic market prices. Consumers either cut meat consumption or switched to poultry and other animal proteins.

Unable to find a good market demand at home, beef and live cattle were exported. Live cattle exports hit an all-time high in 2017, with the expansion of Middle-Eastern markets, but exports are expected to level in 2018 due to limited supply and slow recovery of domestic demand. Beef is expected to follow the same pattern with all-time high exports in 2017.

Pork was exported despite the tough situation with ASF in Ukraine, with Georgia being the major destination. Georgia is also an ASF-affected country. There were 96 new cases of ASF registered across Ukraine (out of total 245 cases registered in 2012-17). Most of them were in households and small-scale industrial farms. There were ASF cases registered in neighboring Romania and Check Republic in proximity to the Ukrainian border. Further spread of ASF to Europe is quite likely. Although the direct impact of ASF on industrial farming was minimal, perceived production risks grew which stifled new investments.

Section I. Narrative

Macroeconomic Factors

In 2017, the exchange rate lost its dominating influence on red meat production and trade. The industry is slowly recovering from the vast currency devaluation of 2014-16 and the consequent demand drop. The exchange rate remained stable throughout 2017. Producers benefit from reduced uncertainty over exchange rates, currency regulations, finance availability (including foreign investments), domestic prices, and stabilizing demand, as well as uninterrupted imports of inputs. Simultaneously, Ukrainian producers lost their competitive advantage in the form of shrinking costs that are fixed in local currency.

Nonetheless the industry will continue to suffer from crisis aftermath in the form of decreased domestic demand and consumers' migration to cheaper proteins. The World Bank projects modest economic growth, at 2 percent in 2017, due to headwinds from the global economic environment and the eastern Ukraine conflict. Domestic demand for red meat products is expected to recover slowly in 2017-18. Ukrainian statistics show a 7-percent retail sales recovery in the first half of 2017, which is significantly higher than the 3 percent growth throughout 2016.

Production

The turbulence of 2014-16 led to significant underinvestment into pork and beef production. The production drop became visible in 2016-17. Low meat and milk prices observed in 2015-16 further decreased production incentives. The cattle industry received limited support from new foreign markets for live animals and beef. Closure of the Russian market in 2015 had limited impact. Swine breeders saw no positive signals and contacted production drastically. Closure of the Russian market was accompanied by low world market prices for pork in 2015-16. Spread of ASF increased investment risks and closed the vast majority of export markets.

Ukrainian State Statistics Service discontinued publication of data that allowed for reliable estimation of production and loss of live animals. Slaughter can be extrapolated from the officially published data, but Post considers these calculations to be less reliable than previously published data. However, data on meat production continued to be published. Post looked at 5-year historical data and made assumptions to generate our Animal Number PSD submission. Those assumptions are the following:

Beef:

- Production (Calf Crop) number for 2017 and the following years will be calculated as 0.97 of the beginning year cow number. This conversion coefficient is the historical average for the last 5 years, and the ratio remained fairly stable. Beginning year cow number does not include replacement heifers (Ukrainian statistics distinguishes 1st year and 2nd year heifers) thus the conversion coefficient is rather high.
- Loss of cattle population will be fixed at 1 percent. This is a 5-year average that also remains very stable.

Pork:

- Unlike number of calves per cow, the piglets per sow number is not stable and is growing over time. The Ukrainian pork industry is increasing its efficiency. Post will be using a trend function that reflects that upward trend.
- Loss of swine population will be fixed at 10 percent. This is a 5-year average that is stable.

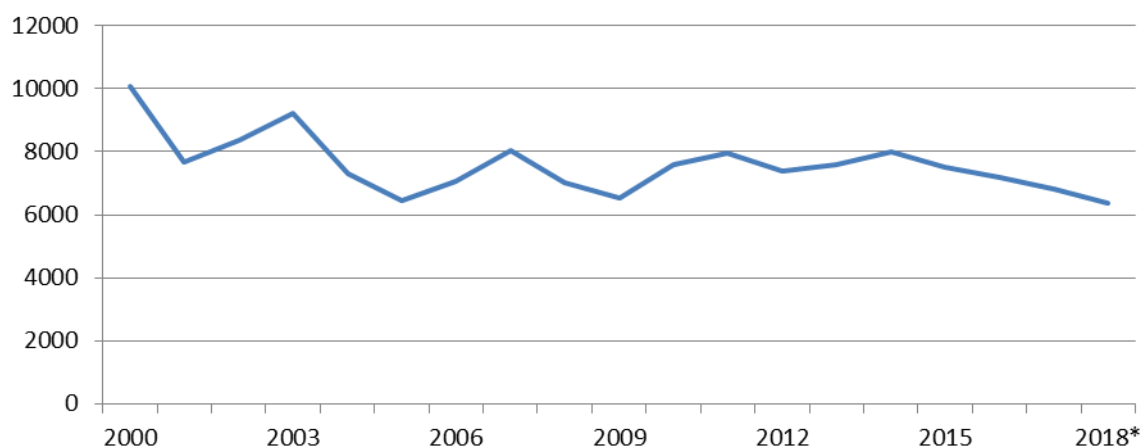
Post will closely work with the industry and Ukrainian authorities in an attempt to improve data reliability. Should improved methodology become available, Post will issue a separate report with a PSD update.

Swine/Pork

As expected, Ukrainian pork producers were unable to increase inventories in 2016. However, increased slaughter led to a corresponding temporary pork production increase. Producers saw no positive short-term perspectives and decreased sow numbers to an all-time low. According to industry sources, less-productive animals were slaughtered and less-efficient farms went out of business. The price recovery of 2017 reversed the trend and some animal number recovery started in early summer of 2017. However, total slaughter and number of animals is expected to be below 2016.

Estimates for 2016 were revised slightly to reflect changes to official statistics and production and inventory data for Crimea.

Number of Pigs as of January 1st of each Year

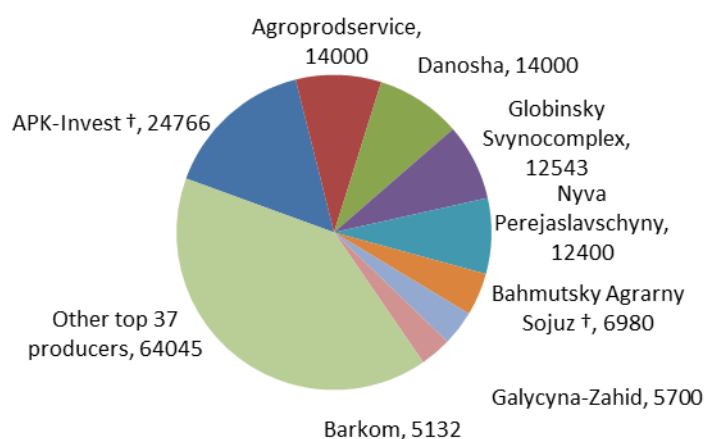


Source: State Statistics Service of Ukraine

*Forecast

Large-scale pork production in Ukraine is conducted by private companies with limited exposure to international financial markets. In general, pork producers tend to rely on internal inputs as most producers are vertically integrated. Additional feeds are procured domestically, which give Ukrainian producers some competitive advantage.

Top 45 Ukrainian Swine Producers in 2016, by Sow Number



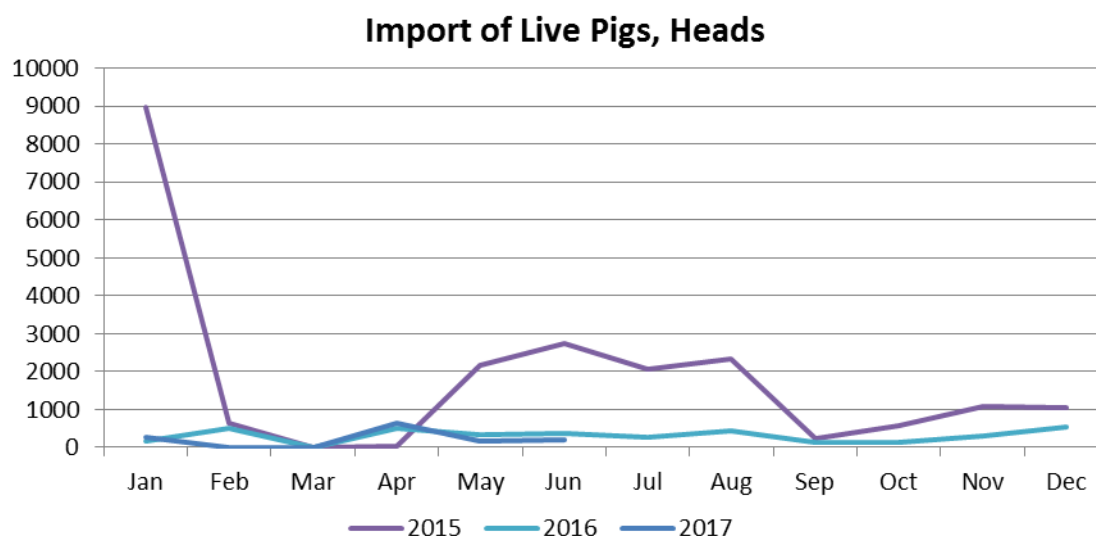
Source: Association of Pig Breeders of Ukraine

† - Ukraine conflict impacted facilities

Industry concentration is not very high, with 45 large specialized producers controlling 53.5 percent of total industrial production. There are many mid-size and small farms that fatten pigs. The largest producer, APK-Invest, accounts for 7 percent of industrial pork production. Despite

being close to the conflict zone, both APK-Invest and Bahmutsky Agrarnyj Sojuz managed to maintain production levels in 2017.

Import of live pigs was limited to high-quality animals for large vertically-integrated Ukrainian producers' genetics programs. Once significant, imports of piglets from Germany or Poland for finishing did not take place in 2016 and are not expected to be resumed in 2017.



Source: State Statistics Service of Ukraine via Global Trade Atlas

Swine Disease Situation

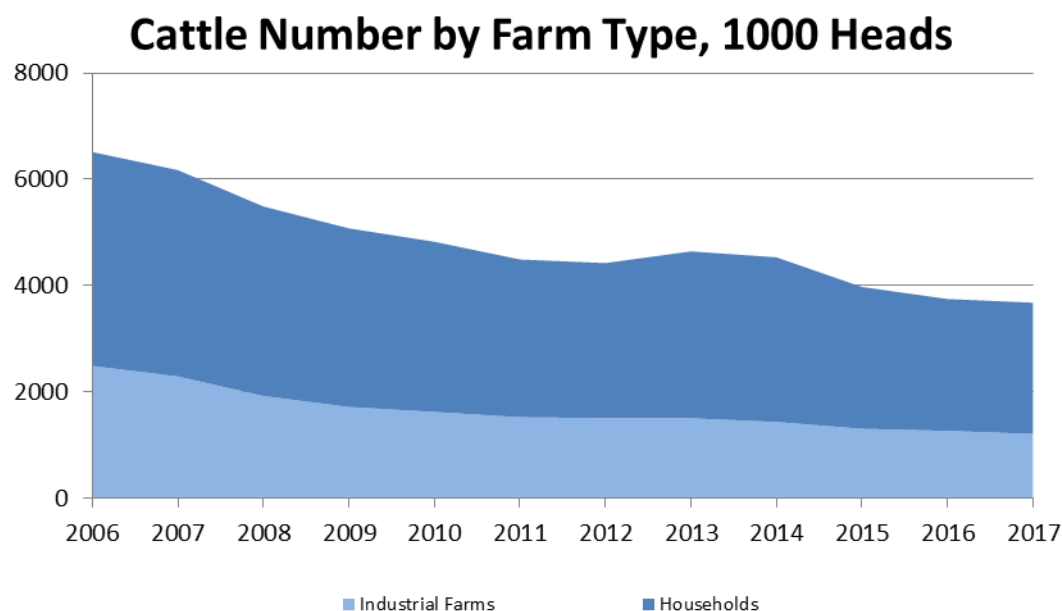
As of August 31st, 2017, over 250 separate African Swine Fever (ASF) cases were registered in Ukraine. They cover almost every single region of the country. New cases are being registered on a weekly basis. However, no new cases in big industrial enterprises were registered in 2017. Relaxed safety measures and significant swine population in the household sector makes further outbreaks very possible.

ASF presence in proximity to large swine producers discourages production and reduces investments incentives. Swine population eradication in proximity to household outbreaks may negatively influence large producers, even those with robust biosecurity systems. Although Ukrainian authorities are working toward a new approach that allows for saving pig populations on farms with adequate biosecurity procedures, production risks remain high and are not entirely within the control of producers. The Ukrainian veterinary service and the swine industry are learning how to adapt and operate in an increasingly ASF-impacted world.

Cattle/Beef

The Ukrainian livestock number remains on a long-term downward trend. No significant changes to PSDs were made. Beef production is expected to decrease again in 2017 to 370 TMT. Beef production is largely a function of dairy production in Ukraine as the number of beef animals is small and declining. The Ukrainian dairy industry suffered from low milk prices that followed Russia's [import ban](#). However, in 2017, milk prices recovered and Ukraine slowly developed alternative export markets for dairy products, live cattle and beef. The impact of Russia's import ban on Ukrainian beef market in 2017 was minimal. Live cattle and beef markets in the Middle East replaced Russia completely.

The largest share of dairy animals is still held by rural households with relatively low efficiency. In 2017, industrial farms increased investments into renovation of the existing production facilities and technology. In most cases, access to foreign markets for dairy products is only open to processors that use milk from commercial farms only.

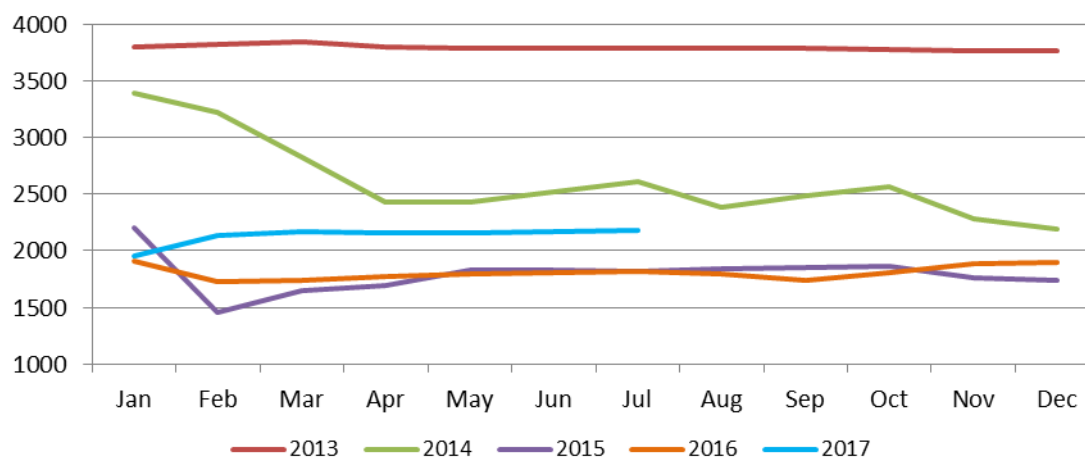


Source: State Statistics Service of Ukraine; FAS/Kyiv calculations

Consumption

In 2016-17, Ukrainian consumers significantly contracted red meat consumption. Disposable incomes reached their bottom in aftermath of the massive currency devaluation in 2014-16. A lot of consumers switched to poultry. Other consumers chose to cut consumption. Low world market prices for red meat in 2016, and price growth through late 2016-2017, did not influence the situation much. Overall, poultry consumption in 2016-17 is expected to be flat despite the shift by some former red meat eaters.

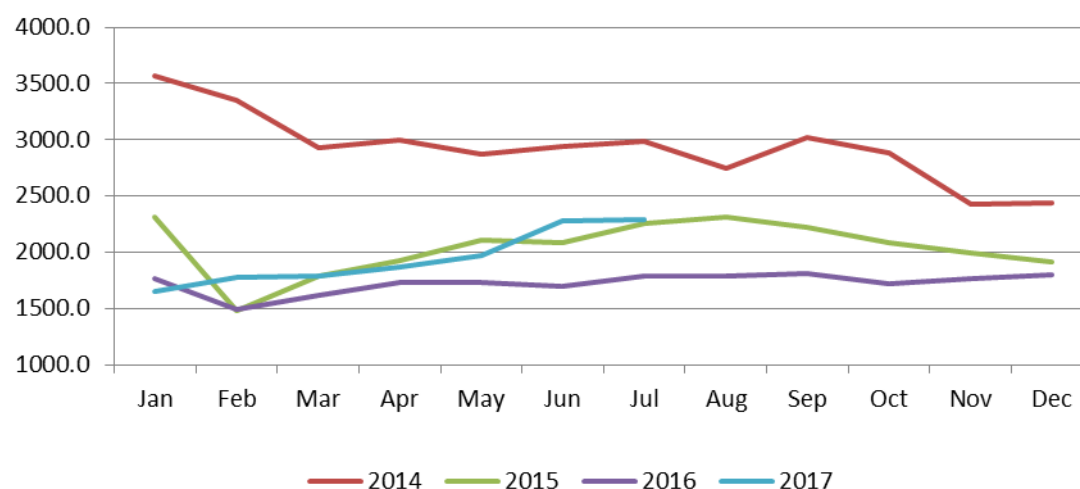
Beef Wholesale Price, USD/MT



Source: State Statistics Service of Ukraine; FAS/Kyiv calculations

Beef consumption is not expected to recover or change, and will remain on a slight downward trend. Ukrainian consumers could not afford expensive beef, thus even limited amounts of product are getting exported to more lucrative foreign markets. Increased beef prices will have limited impact on trade, depressing domestic consumption and promoting some exports.

Pork Wholesale Price, USD/MT



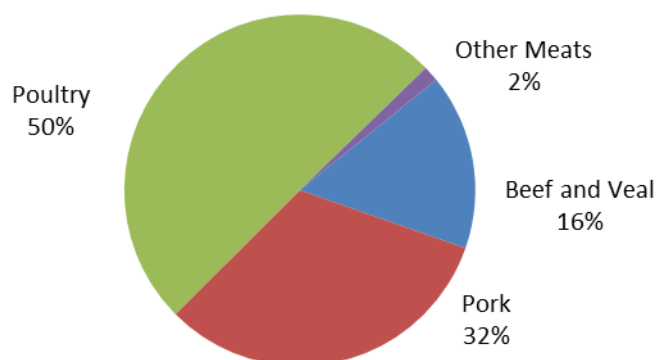
Source: State Statistics Service of Ukraine; FAS/Kyiv calculations

Pork consumption will be an all-time low in 2017. Producers increased slaughter in 2016, decreasing both number of hogs and number of sows. Low market price that year was the main reason for that inventory cut. ASF and anticipated post-crisis consumption decrease also depressed producers' expectations. The pig herd shrinkage in 2016 resulted in increased prices in 2017. However, prices were not low enough to entice importers, as the world market price remained even higher. Consumers were not able to pay the high prices and chose to cut consumption.

Pork price recovery in 2017 have led to some production increases. However, the increase will not be sufficient for consumption recovery in 2018. FAS/Kyiv assumes world market prices will decrease for 2018 which will allow importers to resume shipments. The 2018 import forecast shows this projection, as import size will entirely depend on prices.

In Ukraine consumption of red meat lost another one percent to poultry (mostly at the expense of pork consumption). Now poultry occupies a 50 percent share in the Ukrainian diet for meat.

Ukraine's Meat Consumption Structure in 2016, Percent



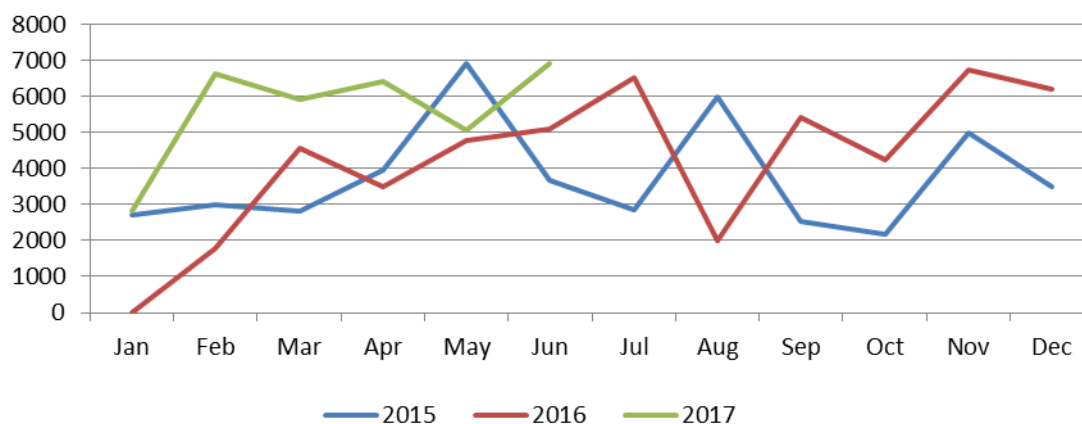
Source: State Statistics Service of Ukraine;

Trade

Trade in Bovine Animals and Beef

Exports of live bovine animals continued an upward trend. In 2017, Ukraine's exports are expected to level off, limited by ports' export capacity and competition from beef export and domestic markets. Export geography also expanded with Azerbaijan becoming a major export market. Exports to Middle Eastern countries became diversified with Egypt losing its market share.

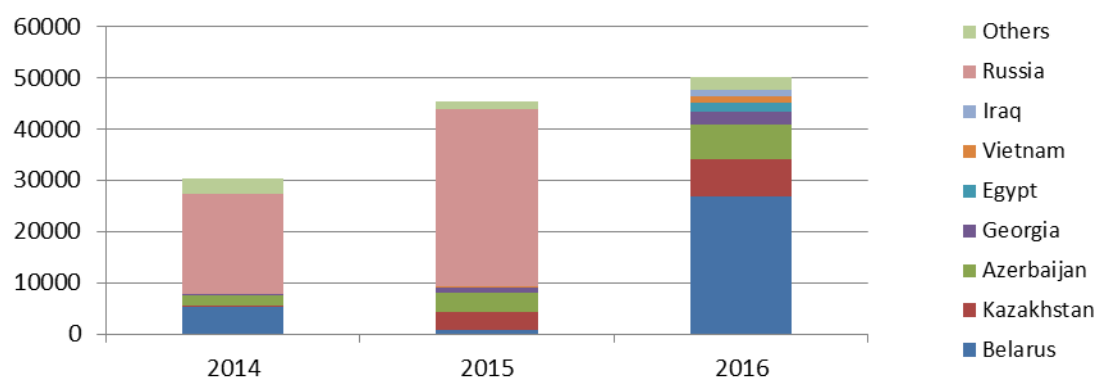
Ukraine's Monthly Live Cattle Exports, Heads



Source: State Statistics Service of Ukraine via Global Trade Atlas

Export of beef in 2017 stabilized, as expected. Ukraine lost the Russian market in 2016, but neighboring Belarus was quick to expand its market share. Belarus did not support the Russian ban and maintains a free trade regime with the Russian Federation under the Eurasian Economic Union and Custom Union. This way Ukrainian beef may substitute Belorussian beef on the Belorussian market, making more Belorussian beef available for export to Russian consumers.

Ukraine's Beef Export Destinations, MT



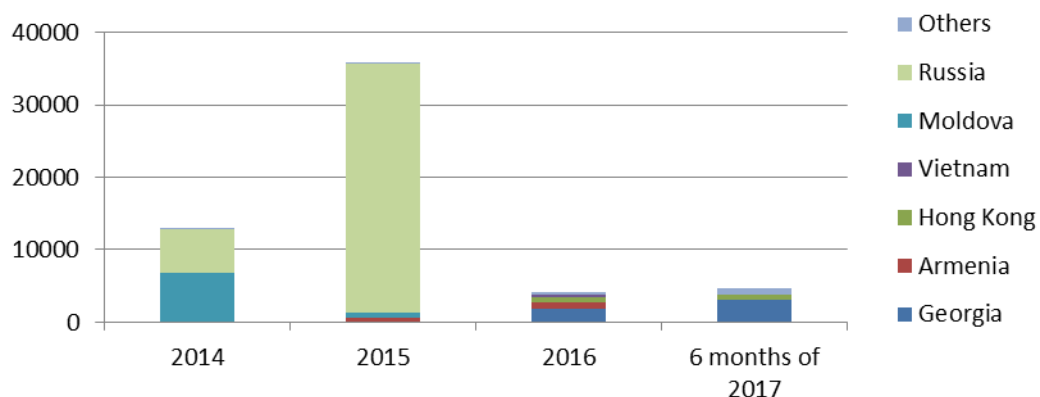
Source: State Statistics Service of Ukraine via Global Trade Atlas

Although Belarus's share is similar to Russia's share in 2014-15, Ukraine managed to develop new markets in Kazakhstan, Azerbaijan, Georgia and some other regional markets. As such, the Russian market closure impact was insignificant. Obviously, Ukraine was able to diversify export markets or discover live animal markets to compensate for Russia's market loss.

Trade in Live Pigs and Pork

Trade in pork remained limited after the Russian market closure in 2015. Despite multiple ASF outbreaks, Ukraine managed to develop export markets in Georgia and some other countries. However, further expansion will be complicated by the SPS situation and increased domestic demand.

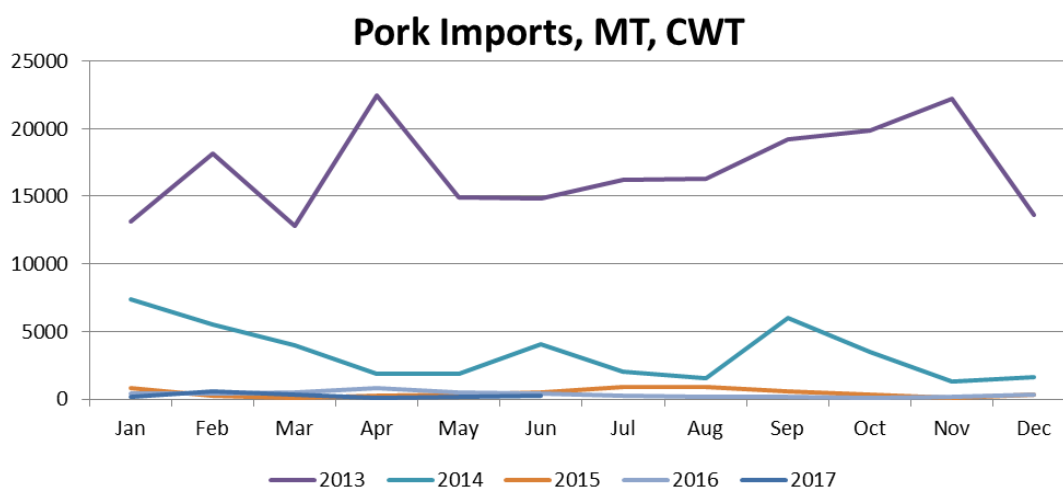
Ukraine's Pork Export Destinations, CWT



Source: State Statistics Service of Ukraine via Global Trade Atlas

Ukrainian domestic consumption decreased significantly in 2017, but may rebound quickly, led by

disposable income growth and pork price decrease.



Source: State Statistics Service of Ukraine via Global Trade Atlas

Imports are unlikely to happen in 2017 due to logistics lag, but they may start as early as winter of 2018. Post's 2018 forecast assumes lower pork prices and inability of domestic industry to satisfy demand in the short term. Despite post's 2018 import forecast set significantly higher at 80 TMT, based on expected lower world prices, the actual number could go even higher. Ukraine's consumption drop in 2017 is expected to exceed 130 TMT, but the lower expected world prices will likely drive consumption back to historical levels. It is not clear who will benefit from the new market: traditional exporters from Brazil, neighboring Poland, other EU countries, or North American suppliers.

Imports of live pigs may also rebound in 2018 as Ukrainian pork producers will not be able to increase the hog number fast after a sizable sow number contraction. Germany traditionally served as a source of pigs for fattening. The PSD table does not envisage live pigs imports resuming.

Section II. Statistical Tables

Ukraine Cattle PSD Table (1,000 Head*)

Animal Numbers, Cattle	2016		2017		2018	
Market Begin Year	Jan 2016		Jan 2017		Jan 2018	
Ukraine	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Total Cattle Beg. Stks	3861	3861	3791	3798	0	3760
Dairy Cows Beg. Stocks	2226	2226	2170	2172	0	2100
Beef Cows Beg. Stocks	24	24	22	22	0	21
Production (Calf Crop)	2160	2160	2080	2080	0	2000
Total Imports	3	3	2	1	0	1
Total Supply	6024	6024	5873	5879	0	5761
Total Exports	51	51	65	70	0	70
Cow Slaughter	0	0	0	0	0	0
Calf Slaughter	0	0	0	0	0	0
Other Slaughter	2147	2137	2075	2011	0	1934
Total Slaughter	2147	2137	2075	2011	0	1934
Loss	35	38	33	38	0	37
Ending Inventories	3791	3798	3700	3760	0	3720
Total Distribution	6024	6024	5873	5879	0	5761

*These are not USDA official numbers

Ukraine Beef and Veal PSD Table, 1,000 CWE (1,000 Head)*

Meat, Beef and Veal	2016		2017		2018	
Market Begin Year	Jan 2016		Jan 2017		Jan 2018	
Ukraine	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Slaughter (Reference)	2147	2137	2075	2011	0	1934
Beginning Stocks	15	15	15	15	0	15
Production	400	391	390	370	0	360
Total Imports	2	2	2	2	0	2
Total Supply	417	408	407	387	0	377
Total Exports	50	50	60	60	0	60
Human Dom. Consumption	352	343	332	332	0	327
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	352	343	332	312	0	302
Ending Stocks	15	15	15	15	0	15

Total Distribution	417	408	407	387	0	377
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*These are not USDA official numbers

Ukraine Swine PSD Table (1,000 Head*)

Animal Numbers, Swine Market Begin Year Ukraine	2016		2017		2018	
	Jan 2016		Jan 2017		Jan 2018	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Total Beginning Stocks	7240	7240	6836	6816	0	6350
Sow Beginning Stocks	480	538	470	430	0	480
Production (Pig Crop)	9500	10760	9350	8770	0	9600
Total Imports	4	4	6	3	0	3
Total Supply	16744	18004	16192	15589	0	15953
Total Exports	10	27	4	35	0	35
Sow Slaughter	0	0	0	0	0	0
Other Slaughter	8998	10461	8900	8524	0	8788
Total Slaughter	8998	10461	8900	8524	0	8788
Loss	900	700	888	680	0	630
Ending Inventories	6836	6816	6400	6350	0	6500
Total Distribution	16744	18004	16192	15589	0	15953

*These are not USDA official numbers

Ukraine Pork PSD Table, 1,000 CWE (1,000 Head)*

Meat, Swine Market Begin Year Ukraine	2016		2017		2018	
	Jan 2016		Jan 2017		Jan 2018	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Slaughter (Reference)	8953	10461	8900	8524	0	8788
Beginning Stocks	0	0	0	0	0	0
Production	800	783	790	640	0	660
Total Imports	4	4	5	3	0	80
Total Supply	804	787	795	643	0	740
Total Exports	4	4	5	7	0	4
Human Dom. Consumption	800	783	790	636	0	736
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	800	783	790	636	0	736
Ending Stocks	0	0	0	0	0	0
Total Distribution	804	787	795	643	0	740

**These are not USDA official numbers*